T H E S I S

"The Economic Aspects of Trusts
Combines and Cartels."

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C o n t e n t s .

Chapter 1.

The problem of the "Trust" is an ancient one

"And Joseph gathered corn as the sand of the sea, very much until he left numbering; for it was without number." (Genesis 41, 49)

Thus on Pharoah's behalf, Joseph, though only thirty years of age, shrewdly cornered the grain crop of ancient Egypt so as to gain vast profits by sales in every country during the seven thin and ill years of famine which waxed sore "over all the face of the earth" and whose advent he had forseen and prophesied. Josephs "Trust" however was a good one, to employ modern terminology, because help was given to those in need despite the existence of the monopoly.

There is also the story about Thales and the olive presses as related by Aristotle;[1]

"There is the anecdote of Thales the Milesian and his financial advice, which involves a principle of universal application, but is attributed to him on account of his reputation for wisdom. He was reproached for his poverty, which was supposed to show that philosophy was of no use. According to the story, he knew by his skill in the stars while it was yet winter that there would be a great harvest of olives in the coming year; so, having a little capital, he gave earnest money for the use of all the olive presses in Chion and Miletus, which he hired at a low price because no one bid against him. When the harvest time came, and many wanted them all at once and of a sudden, he let them out at any rate which he pleased, and made a quantity of money. Thus he showed the world that philosophers can easily be rich if they like, but that their ambition is of another sort. He is supposed to have given a striking proof of his wisdom, but his device for getting money is of universal application, and is nothing but the creation of a monopoly."

1. Aristotles Politics, p. 48.

The early common law of England frowned upon all violations of the freedom of trade. Under the Tudors the crown made it a habit to grant patents of monopoly in certain trades or articles for the benefit of favoured courtiers. During the reign of Elizabeth the oppression resulting from this practise was so grievous that Partliament bitterly protested, with the result that in 1601[1] many of them were wiped out. The court set forth that monopolies resulted in three evils, - the increase of prices, deterrioration in the quality of goods and the reduction of labourers to idleness and beggary.[2] Under James 1, grants of monopolies continued leading to the passage of the Anti-Monopoly Act of 1624. Finally, in 1689, Parliament abolished the right of the Crown to grant a Monopoly by royal patent.

During the pioneer days of the American Republic the problem of gigantic corporations involving the possibility of monopolistic control was not a serious one. Following the Civil War, however, the picture changed. Twenty-five years after the close of that conflict, America had become one of the chief manufacturing nations of the world. Individuals and partnerships were supplanted by corporations. These corporations increased rapidly in size and importance, particularly during the decade beginning with 1880. In 1882 John D. Rockenfeller's Standard Oil Trust was created.

1. Wormser - Frankenstein Incorporated - P. 182.
2. Ibid. P. 182.

This and similar American trusts of that era were really trusts, in the sense that the various corporations' shares of stock were handed over to trustees, the shareholders receiving certificates of interest in return for the securities so held by the trustees. The highest court of Ohio, in the Standard Oil case, and the highest court of New York in the Sugar Refineries case, decided respectively in 1892 and 1890, declared that such arrangements were illegal and against public policy, and might be challenged as such by the state in a proceeding to oust the corporation of its franchises.[1]

At the close of the nineteenth century three quarters of the industrial enterprises of the country was dominated by the corporate form of organization,[2] and the continual tendency among these corporations was toward gigantic combinations. It is only necessary to add that this increasing concentration has developed in such manner that it is asserted that to-day that one half of the wealth of the United States is in the hands of less than one and a half percent of the people.[3] Among the immense corporations at or just before the turn of the century were the oil, steel, copper and sugar trusts. The most noted of these being of course J. P. Morgan's U. S. Steel corporation. The popular press attacked these. The controlling directors were portrayed as stout, full-blooded ogres, clad in checked suits with dollar signs glistening upon their loud apparel.

1. Wormser - Frankenstein Incorporated - P. 183.
2. Ibid. P. 184.
3. Ibid. P. 184.

Diamonds glistened from their broad expanse of snow white shirts. High hats were held in their hands. And the poor, downtrodden public was represented as a meek, docile little fellow, seeking to avoid the all conquering foot of the monopolistic giants.

The term "Trust" came to mean a corporation possessing a monopolistic or nearly monopolistic control of the market in a certain commodity. Where the laws frowned upon holding companies, resort was had to the device of consolidated corporations. When these in turn were prosecuted, loose secret arrangements, often probably formulated at luncheons or dinners, provided a ready means of corporate control. Among the evils which characterized these combinations were rebates on their shipments, thereby putting competitors at a grave disadvantage, unfair and unethical trade methods, bold intimidation of competitors and corruption of politicians and judges. The philosophy of the corporate entrepreneur of the late nineties was terse and ruthless, viz; the individual, private or corporate, was everything; society and its demands and rights were nothing. The "laissez-faire" theory was in full swing. Ruthless individualism was the order of the day.

Ever since the beginning of the Joint Stock Companies there has been a movement towards the aggregation of Capital. The U. S. is the classic land of trusts. However since the end of the 19th century great trade associations and combinations came into being in the United Kingdom. During the war, industries, in order to eliminate waste, were forced to join hands and cooperate.

But war, or no war, the growth of trade associations and combines has continued without interruptions, for this is a natural and inevitable outcome of the competitive system. Trade competition tends to reduce profits to a minimum. It leads to reckless, and unregulated, and unprofitable production, and involves enormous expenditure on methods to secure trade. Vast consolidations have taken place in the iron and steel trades. Before the recent combine in the chemical industry, with its combined capital of over £60,000,000 the production of chemicals in England was almost wholly in the hands of two great consolidations. In soap, tobacco, wall-paper, salt, cement, textiles, copper, coal, glass, fertilizers, shoes, cocoa, margarine, thread, matches, whisky, oil, linoleum, insurance, banking, railways, building material, newspapers, in fact in practically all industry the trade is controlled in respect of output and prices by associations combinations and trusts.[1]

Great progress has also been made in recent years in the amalgamations of concerns in the distributive trades. The leading London stores are swallowing up smaller firms in London, and are extending their operations into the provinces. The multiple shops, supplying groceries, boots, clothing, tobacco, drugs, and other specialized trades, now monopolize the best shopping streets in all England's towns. The same tendency has actively operated in finance.

1. Contemporary Review July '28 - Phillip Snowden, "Amalgamations in Finance and Industry." P. 4.

The old private banks have disappeared, the commercial banking business of the country is now controlled by six great joint stock banks.

To quote Phillip Snowden;-[1]

"We are not concerned with the question whether competition is essential as an incentive for capitalism and workmen to put forward their best efforts, whether competition in industry be good or bad is becoming less of a practical issue because it is being rapidly and irrevocably eliminated by the form which industrial operations are assuming. That there are certain advantages in competition nobody will deny but it is clearly the views of those who are trustifying industry that the competitive system involves disadvantages which outweigh the blessings."

The progress of invention and science makes the use of expensive machinery necessary for economical production. The cost of such machinery and the expense of replacing it when worn out or when improved machines or processes come into the market, require the employment of a larger unit of capital than was formerly the case. The acquisition of the necessary amount of capital to take advantage of the most economical forms of production and distribution is in most trades so large as to be beyond the resources of a single individual. It was this fact that gave rise to the joint stock system. The man with the command of small capital suffers from other serious disadvantages. He is unable to buy raw material on the most advantageous terms, and he cannot afford to pay for the services of the most capable managerial help.

1. Contemporary Review July '28. P. 5.

He is compelled to reduce his overhead charges to the lowest point, with very often a consequent loss of efficiency. He cannot afford to compete with rivals commanding greater resources for advertising the marketing of goods.

The community has suffered from the multiplicity of business concerns and competitors engaged in producing and selling identical articles through the aggregate of necessary working expenses. For instance, very often we find in the same street half a dozen boot shops each of which may be working on a small margin of net profit. But to maintain half a dozen shops when one might meet the needs of the district involves the maintainance of half a dozen establishments with the expense of rents, rates, salesmen, clerks, and innumerable other costs which must be added to the price of the boots, before a net profit can be made. The same set of facts apply to rival concerns engaged in the manufacture of any commodity. It does not follow, therefore, because the net profits of an individual business may be comparatively reasonable that the public are not paying far more than would be necessary if the innumerable expenses involved in competition were eliminated.

The object of a trust is to concentrate production so that the greatest efficiency can be secured and all possible waste eliminated. The economic advantages which are secured by a soundly financed and well managed trust are many. A sound trust has the command of a large amount of capital, which enables it to take advantage of everything which can contribute to economy in buying raw materials, in the use of machinery, and in the organization of selling and distribution. The wealthy trust can afford to spend great sums upon research and experiments. It can afford to buy the services of the best scientific and business brains in the market.

The forms of organization are many

1.

a) Associations of men who are interested in the same line of business, without altering the conditions of competition, i. e., national, state, or local associations for the protection of special interests. A good example was "The Brewers National Convention"[1] (before prohibition) which occasionally collected money to influence the elections, or to pacify the legislatures, --especially when unfavourable taxation or temperance laws were imminent.

b) Associations in which besides the above mentioned features there are regulations concerning trade customs, listings, and quotations, or scales of prices. The centralization of cattle and meat dealing in Chicago, momentous enough to justify an investigation as early as 1889-90 is of outstanding importance. Though this early investigation[2] did not reveal a formal union of the large Chicago packers, it was demonstrated that heavy pressure of the railroads and ownership of the Chicago stock

1. Ernst Von Halle - "Trusts." P. 20.
2. Ibid. P. 22.

yards on the one hand, "friendly agreements" on the other, had resulted in an effective control of the whole market. Armour, Swift, Morris Nelson, and Hammond ruled the cattle and meat market of the country. They conducted their businesses individually, but jointly they fixed the prices for the purchase of cattle and sales of meat in the markets of Chicago, Kansas City, and Omaha. They annihilated independent butchers by cheaper sales through their own agents. They determined the daily market price of the cattle. If the seller refused to take the first bid he was generally forced to accept a lower one; the purchasing agents were instructed never to overbid each other. The principals themselves were in constant communication with each other, and decided the evening before what should be the tendency of the morrows market.

c) Associations where the parties hold regular meeting to fix prices, and to decide upon the output, or appoint common agents to market the product. Prevalent among the coal dealers and the railroad business. All these arrangements approach very near to the second class, and are species of the large genus "Pool."

11.

Agreements strengthened by a more formal and material tie,

a) Sometimes the resolutions concerning output, quantities to be marketed, and prices, are put into writing. To this class belong the contract[1] between the petroleum refiners, "The Standard Oil

1. Ernst Von Halle - "Trusts." P. 24.

Co. of N. Y.", acting as their representative, and the "Oil Producers Association", for a temporary restriction of the oil production. Other instances are the numerous agreements among the wholesalers' associations concerning the minimum prices of sales to retailers.

b)
Sometimes the ties are made closer still by the institution of penalties, or by the payment of a share of the earnings into a common fund in order to secure the observation of the agreement, or for expenditures in the common interest, and later redistribution in fixed percentages.

c)
In some cases, finally, the coalition is upheld by a system of premiums, as in the electrical appliance industry. The one party pledges itself to buy only from the other, or to sell exclusively to him; in compensation it receives special rebates.[1]

111.

Combinations which strive for and attain identity of all interests.

a)
Cases where the individual undertakings are really or nominally preserved; the "Trusts" proper.

1. Either the trust is established by a transfer of a majority of stock of the different companies to the trustees, in whom thereby the control is vested, and who issue trust certificates in exchange

1. Laidler - P. 278, Concentration In American Industry
The National Light Castings Association grants rebates on the prices of goods supplied to builders merchants, provided the latter deal exclusively with members of the association and keep strictly to price list.

2. or the total amount of all the stocks is transferred to the trustees who issue the trust certificates whilst the former owners keep mortgages to the extent of the valuation of their factories and perhaps receive an additional bond

3. or the property is unconditionally transferred to the trustees, in return for the delivery of trust certificates.

b)

Cases (practically differing little from the above trusts) where the advantages themselves are consolidated; either

1. Temporarily, by lease or rent, which is quite common with railroads, and also happens in all other branches of business; or

2. Permanently

(a) By sale: a trunk line buys a branch line; one concern purchases another, and closes it or runs it as a branch.

(b) By complete control through ownership of the stock.

(c) By amalgamation.

(d) By the establishment of a new large company which absorbs in itself all those already existing. Some are then operated entirely by the central administration. To others a certain independence is left for particular branches or districts. Still others are run as branch offices; others again,--as all the establishments located in different states, controlled by ownership of the whole or a majority of their stock,--and managed in one of the forms described above.

Monopolies also come under this heading and are divided into three main categories

1. Natural Monopolies;--There are commodities which only exist in quantities locally limited, such as deposits of nitrate, asbestos, etc., or are manufactured from materials so limited. The ownership of certain territories, therefore, for the purpose of their products, can easily confer a controlling power upon certain individuals.

2. Quasi-Natural Monopolies;--Certain plants which everybody can establish, but which, once introduced, can hardly be competed with, at least, only with very disastrous economic consequences; because they require an enormous machinery of capital, employees, and management. By the mere fact of their existence, they become nearly as powerful as natural monopolies. The U. S. Steel Corporation is a good example.

3. Legal Monopolies;--Such as patents and copyrights etc. There has never been any question about their right to existence, "As they stimulate the genius and give a due reward to the promoters of human progress". Patent rights have been the basis of innumerable important combinations, originating in patented processes of manufacturing, or in patented machinery. The Legal decisions are, contrary to the tendency in other instances, usually in favour of the widest construction of the franchises given by a patent. In the case of important patents, we find either several branch manufacturers distributed all over the country for utilizing the process, or one central establishment.[1] Sometimes the owners grant concessions to a number of other establishments to use their patents in return for fixed royalties, whilst they pledge themselves to a certain restriction in the number of their concessionaires. In some cases, finally, the undertakers of one group combine to buy up various patents,[2] and use them jointly, or they establish another company to utilize them.

Capital and business ability work in unison towards the regulation of all the elements which contribute to production of the articles in question. The goal of undertakings of this sort is rightly expressed by such phrases as the cheapening of production, the regulation of output, and the control of prices.

1. Electric light bulbs.
2. Patent Pools of Vacuum Cleaners and Washing Machines.
Laidler - P. 299.

Chapter 11.

The large undertakings do not originate in idea, moral, or general economic considerations; their immediate aims are larger and surer profits. Hardly would a Rockenfeller in his first efforts have devined what economic missions his action was destined to fulfil; hardly did old Commodore Vanderbilt invest his first money, acquired through the Station Island Ferry Service, in railroads, with the intention of establishing a model of centralized railroad administration. But none the less the existence of these great personalities has been of an extraordinary, and often decisive, importance for the general development of the several industries.

That such men went into the petroleum trade, or into New York Railroad enterprises, had, as things turned out, consequences not only beyond their anticipation, but also affecting regions far outside their immediate sphere. In this country where the activity of the individual is least restricted, the personality of the projector, more perhaps than in Europe, seems to dominate the situation. Men who promote the giant works of civilization and who, with creative energy, have impressed the stamp of their individuality upon whole industries, can be found here more often than abroad. These men have to show initiative, to realize the wants of the times, and to take the leadership of the various movements. And by grouping the existing means for those purposes in an appropriate manner, they become examples to others.

It seems that great economic revolutions are inevitably bound to crush a part of the opposing forces. The history of the attempts at centralization in the United States abounds with episodes, in which numberless individuals have been economically ruined by powerful adversaries. The methods employed were not always the most honest. According to Benham (Railway Secrecy and Trusts pp 41-50) the system of secret agreements are much older than the trusts, and date from the very beginning of railroad management. If one merchant did not avail himself of it, some one less scrupulous would, and thus the business of the former would be undermined. And these were not the only objectionable methods of the trusts. Various most cruel devices, which could be used with impunity under laissez-faire have been revealed by investigations. The sighs of the victims are still audible, though it appears that in the course of time, with wider expansion, the older trusts and their practices are less violent and more conservative. Great business men and large undertakings are even to-day unable to secure discriminations from the railroad companies, and they slaughter undesirable competitors in cold blood. But these are phenomena not peculiar to the trust. They occur in the establishment of every large enterprise--as in the building up of large dry goods firms or grocery houses, trades where there is no organization; and the cruelties are matters not so much connected with our immediate problem as with the general public morality. Of course public morality is influenced by the example of the combinations and their leaders who take such a conspicuous position in public life.

After the Standard Oil Co. had broken the ice, its initators found their task much easier, and did not need to apply so much pressure. Bonham's distinction between trusts which originated in railroad discriminations, and those that did not so originate, useful as it may be in some ways, is very superficial, in so far that it presup oses that all trusts of the latter kind are merely accidental schemes. Many of them, are natural outcomes of natural struggles and alliances.

The ability of a large undertaking to produce more economically makes it superior to a smaller one. Such an undertaking is based upon the employment of large capital, is favoured by local or individual circumstances, and is promoted by pre-eminent men, who through enterprising skill are able to secure further advantages.

With the exceptions of a few whose rise was gradual and steady, the birth of combinations is favoured by the times of dulness in business. In prosperous periods, individuals frequently feel safe enough in their independence; in hard times they realise how much better off they might be in union. Extraordinarily low prices, grave disturbances of the market, the crushing rivalry of competitors, or vigorous associations, of workingmen with repeated demands or strikes, give an impulse to the starting of combinations. Nevertheless these would have met with much greater difficulties, and some of them would not have come into existance at all, had they not been cheerfully greeted by the stock exchanges.[1] The prospects of great speculative gains have proved very enticing; though such as over capitalization and u scientific management have resulted in serious losses.

The material, administrative, commercial and technical basis, on which the promoter establishes his enterprise can soon be ascertained from the results acheived. The probable method of procedure is as follows:

The preliminaries generally take months and years; they are often interrupted and resumed; and it needs more than common ability to reconcile all the diverging interests. When this is finally done, and the preliminaries agreed upon, a document (trust-deed, articles of association, etc.) is signed. (To frame this the most skilfull work of corporation counsel is required. These lawyers have, of course, to take into careful consideration every legal decision bearing on the situation, in order that the document may be unassailable in the courts. Such work and its importance to great interests--explain the large earnings of the great corporation lawyers in the financial centres.) The undertaking is practically established, and to comply with the legal requirements, a charter is usually taken out. Meanwhile a detailed valuation of the several properties have been carried through. On this basis the capital of the new company is divided

1. In recent times, years of prosperity have been most noted for mergers. It is at such times that promoters are most actively at work, and a stock market boom helps them sell securities for friends with which to carry through and finance a merger. Am. Econ. Review, March 1931, "Trustification and Economic Theory." M.W. Watkins.

among the parties to the agreement. An election meeting takes place and the by-laws are agreed upon. Thereupon the administration passes to the president and board of directors. One of their first steps is to ascertain the productive capabilities of the individual factories. What proves to be the best methods of production are adopted. Only the best equipped and the most profitable works are run to the full extent of their capacity. Of the less profitable, as many are raised to the same degree of efficiency as are needed to supply the market; the remainder are close . They have been admitted only to avoid com etition.

As regards the regulation of production there have been occasional com laints of an objectionable restriction, which have met been without foundation. In the period of lively demand, the trusts have attempted to bring about a great rise in prices by diminishing the supply.[1] But these attempts at corners have always been of only a temporary nature. The more far-seeing and successful administrators have begun to realize the boomerang character of such attempts, and to take the position that the greatest earnings are always derived from the production of a steadily increasing quantity. On the other hand, they naturally try to prevent a disastrous inflation of the market.

The most vigorous attacks arose from the alleged attitude of the combination towards the regulation of prices. It has been objected, that the trusts keep prices im oderately high for the consumers, and pay im oderately low prices to the producers of raw materials.

1. Federal Trade Commission,- "Premium Prices of Anthracite." P. 16.

But experience has taught, and probably will make it more and more apparent that in the long run only those trusts are successful which succeed in steadily cheapening and improving their product. Whenever they have raised prices unwisely, competition, allured by the prospect of great gains, has arisen at once to such an extent as to endanger the very existence of the undertaking.

Mergers are a natural, indeed an inevitable, result of recent economic trends. The successful mergers are those that are in harmony with these trends.

The acceptance by American business men of the fact that the combination of low prices and high wages is not only possible but highly desirable from the standpoint both of labour and of business. Intelligent business men seek constantly for ways by which they can still further reduce the price which the consumer must pay for goods. Much has been accomplished by improving production methods, but there still remain great wastes over many of which the small or independent concern has little or no control. To secure the ultimate in cost and price reduction, it is necessary to eliminate every unnecessary item of cost between the raw material as nature provides it and the ultimate consumer. The proper kind of merger provides a more effective means for reducing many elements of the cost of production, distribution and administration.

This reason for merging is in morbid contrast to that which underlay the mergers of thirty to forty years ago, whose promoters and managers thought they saw in consolidation a way to monopolize their industries to the end that prices to the consumer might be raised to an extremely profitable height.[1]

Another potent cause of mergers is the acute competition which results from so called "over-production." Theoretically until every inhabitant of the world has all of the goods of all kinds that he can use, there can be no such thing as real over-production. What we really have is under consumption, due to the fact that millions of people cannot yet afford to buy what the factories can produce, largely because the factories cannot produce at low enough cost.

Owners of inefficient old mills are naturally reluctant to wipe out their investment by junking their properties. As a result, they constitute potential capacity hanging over the market ready to provide overproduction at the moment prices show symptoms of stiffening. Many such plants operate more or less continuously. Not only do they tend to disorganise their own industry; they usually pay low wages, which is still worse because that directly or indirectly affects adversely the prosperity of everyone.

In some cases the only way an industry can be relieved of the threat of high cost, antiquated productive capacity is by means of merging, large enough and rich enough to buy up such plants and junk them. Expensive as this procedure is, it is sometimes less expensive in the long run than to combat ill-informed and sometimes ill-natured and downright malicious competition.

1. Federal Prosecution of Meat Trust 1905 - Laidler, P. 202; The International Copper Trust, 1896-97, endeavoured to corner the metal and failed; the American Match Trust, 1901, also failed to establish a complete monopoly - Fortnightly, March 1930, "The Case for Cartels." H.C. Trench.

A large merger in one industry took that view. It wiped out its investment of several million dollars in inefficient factories--with great courage junking nearly half of its plants.[1]

The American Writing Paper Co., a merger formed in 1899, struggled along until 1927 with 26 plants, some of which were none too efficient. The entire production could be turned out at a proper cost by 16 of the more efficient mills operating at close to capacity. The inefficient plants operated only at intervals but their overhead expense went on full time and was a serious drain on the company, so serious that in 1927 it underwent a complete reorganization. As part of the betterments put into effect, ten of the mills were turned over to a separate company and offered for sale. Of the nine that had so far been sold, two were taken for their water power, five are making entirely noncompetitive products and two, while making a product somewhat similar to that of the American Writing Paper Co., are so located geographically as not to be competitors. It is likely that had the American Writing Paper Co. followed this plan when it was first put together thirty years ago, its history might not have been so spotty. But one knows more about the economics of merging now than one did then.

It is not only by eliminating obsolete plants that mergers tend to reduce the likelihood of over production.

Even in the face of sharp and unintelligent competition a few low cost producers in an industry commonly get so much business that it becomes desirable to expand their production capacity if they are to reap the full benefits of their progressiveness.

1. Basset - "Operating Aspects of Industrial Mergers." P. 4.

But so long as there are enough modern plants in an industry, it is evidently poor policy for a concern to build additional ones. A saner and far quicker way to expand is to buy existing plants rather than to build new ones, provided, of course, that the plants acquired are well located and can be secured at a reasonable price. Many of the recent industrial mergers have been for the purpose of securing additional capacity ready made.

Much the same idea is at the bottom of many mergers of chain store systems.[1] Rather than go to the expense and endure the delay of opening brand new stores in a desirable territory and incidentally plunging into competition with an established chain store, it is better policy, usually, to buy out or merge with the existing chain.

In the early stages of industry, when capital was more or less limited, it was the practice for a manufacturer to limit his activities rather closely to the transformation of a raw or semi-finished product into its next form. Thus, there were concerns which spun raw cotton into yarn, others which wove the yarn into cloth, and still others which converted the "gray goods" into finished fabrics. The same restricted specialization existed in many other fields.

Lately, it has been realized that the producer of a semi finished product is bound to be in a difficult position. His goods pass through so many other hands that they seldom are identified by the ultimate consumer as the product of any particular mill. Such products are textiles, leather, pig iron and many others.

1. A. & P. Chain Store Co. - 16000 Branches - Laidler, P. 363.

It is the hard lot of producers of semi-finished products to be in sharp competition with a host of similar producers. Consequently, selling is largely a matter of price and the profit is apt to be low.

It is coming to be realized that the sole reason for business is to provide the ultimate consumer with something he can use. The consumer is the all important factor. It is his loyalty to a finished product that creates that most valuable asset--good will. The buyer of a shirt, for instance, has a certain amount of good will toward the retailer who sold him the shirt, provided it is a good shirt. If the make of the shirt is advertised by the manufacturer the consumer may have good will toward him but he has little or none for the producer of the finished fabric from which the shirt is made, and still less for the producer of the original yarn from which the cloth was woven.

Therefore, on the face of it, it is apparent that so long as a manufacturer produces semi-finished materials for other firms to process, the cards are stacked against him. The nearer he can come to the almighty ultimate consumer, the more intelligently he can merchandise his product and the safer and more stable his profits are apt to be.

Some of the large mergers of retailers are becoming aware of the desirability of uniting with producers so that they may be certain of adequate supplies of the right kind of goods at reasonable prices.[1]

1. The American Tobacco Co. took over the assets of the United Cigar Stores, shortly after the turn of the century, and engaged in the retail sale of tobacco. - Laidler, P. 192.

This results in mergers between producers and retailers--a trend which will undoubtedly become more marked with the development of large chains of retail stores. Cotton mills, and tanneries, for example, may end up as part of an economic family comprising not only many stores, but factories making shoes, clothing, furniture and a multitude of other products equally diverse.

It is beyond question that any business is better off when there are a few strong and well managed concerns in the field than when several hundred, many of them small, poorly managed or downright irresponsible, are engaged in a battle royal. Competition between big business is less likely to be ignorant or malicious, and while it is apt to be strong, there is a good chance for each, if it is well managed, to get sufficient of the business to provide a fair profit.

Competition alone does not necessitate merging. Producers have found it necessary to combine in order to cope with the concentrated buying power of merged customers.[1] The trend towards huge chains of retail stores has put the small factory in a most disadvantageous position. Strength on one side can often be successfully met only with strength on the other.

It is evident that there are trades in which smallness is an asset, - at present perhaps even a necessity. Such are those in which a high degree of craftsmanship is required. We shall probably, for instance, never see billion dollar mergers of custom tailors. Yet even that statement may well prove incorrect

1. Single retailers such as R.H. Macey & Co., etc., who, having a tremendous retail business, naturally have a potent purchasing power. Chain stores are also important in this class. E.g. The Great A. & P. Tea Co., F.W. Woolworth, J.C. Penney Co., Kroger Grocery, and Baking Co.

as time goes on. The partisans of small business have reiterated that chain stores could never displace the small independent merchant, basing their statements upon the alleged desirability of close personal contact between the proprietor and his customers. Yet the increase in the number of chain stores goes on. The answer is doubtless to be found in the fact that to the consuming public "business is business". It prefers low prices and standardized good service and quality to the warm handshake and often counterfeit personal interest of those from whom it buys.

It is often said categorically that we are in an era of big business and that every business must become big if it hopes to survive. On the other hand, it is contended occasionally that big business is so inflexible, slow to move and unwieldy that it is bound to succumb to its more active small competitors as did gigantic prehistoric animals like the giant dinosaur.

On the whole, it appears that the belief in some quarters that big business is a passing phenomenon which will fall before the agile attacks of small enterprises is based either on the self-interest of small propagandists or, to some extent in the human desire to see giants slain by Davids. The parallel between huge mergers and the extinct dinosaur fails when it is realized that the dinosaur was notable not only for its great bodily size, but for the extraordinary smallness of its brain. Our successful business giants are directed by large and exceedingly active brains--which are not only skilled in the day to day management of big business, but are fully aware of economic trends and realize the need of keeping their enterprises in harmony with those trends.

Chapter 111.

Types of Mergers

Theorists, as a rule, classify mergers in three types --the horizontal, the vertical, and the circular. A horizontal merger, they say, is composed of concerns making similar, usually competing, products. A vertical one comprises concerns performing successive operations--the finished product of one being the raw material of the next in line. Circular is their description of a merger which is made up of concerns making allied or complementary products. It is usually, but not always, composed of those which sell through the same channels or to the same markets.

The horizontal merger is the simplest type. It is the form most usually thought of by distressed business men when profit begins to hit the toboggan. Whatever may be the real reason for a concern being unprofitable--inefficient production, extravagant selling or sheer general incompetence--it is plain human nature to attribute the trouble to the cutthroat practices of competitors. Often, it is true, that is the real reason, brought on usually by a degree of overproduction in the industry.

What is more natural, when competitors finally find themselves at the point of financial exhaustion, than that they should make friends with each other after a fashion and huddle together for mutual protection against the common enemy, bankruptcy? Thus are many horizontal mergers born.

Many of the present day highly successful businesses started on simple horizontal mergers and later added the vertical or circular features. At present there is a entirely wholesome movement afoot for just such simple mergers of competing mills in the cotton textile industry. It seems likely that to become most effective these mergers will in time consolidate with still others along vertical lines.

The National Biscuit Company[1] is an excellent example of the combined horizontal, vertical, and circular merger. It operates 38 biscuit plants in the United States, as well as 19 plants making bread and hand cakes. It is thus in a strong position in all branches of the baking industry. In 1928 it acquired the Shredded Wheat Co. and so became still more markedly a merger of the circular type. Ownership of a paper carton factory and of flour mills gives it a control of a large part of its raw material requirements.

It is notable that of the early mergers those that are mostly successfull after 20 years or more are those which partake of the vertical form--usually combined with the horizontal. The U.S. Steel Corp. is an outstanding example.

It produces steel in most, if not all of its possible forms. A large part of its products, of course, are sold to other manufacturers for further processing, yet some of its output is carried through from the ore to the finished product. For instance, The American Bridge Co., a subsiduary, fabricates steel shapes into bridges and sky scraper skeletons. The American Steel and Wire Co. turns into wire and cable the wire rods produced by other steel corporation subsidiaries.

1. Basset - "Industrial Mergers." - P. 23.

While the Steel Corp. is not integrated in all respects clear through to the consumer, it has carried the process of integration backward as far back as it can possibly go--namely to the ore the coal and the limestone in the ground.

Here, is a number of real advantages enjoyed by a vertical merger--and some which, under certain conditions are more apparent than real.

1. Selling effort all along the line, except in the final disposal of the finished product is eliminated. This means that selling expense, buying expense, credit expense and a large part of the clerical expense is eliminated. In some instances the toll taken by these items from the final selling price can be reduced as much as 80 or 90 percent.

2. To be a link in a vertical merger is particularly advantageous for a producer of a semi finished material especially when the raw material is subject to sudden price changes and when raw material cost is a large part of the total cost.

Much of the trouble with the cotton and leather industries is the result of this condition. So large a part of the cost of tanned leather and of cotton cloth is material cost that minor fluctuation in the price of cotton or hides may make the difference between a profit and a loss. Furthermore, when cotton mills and tanneries become part of a vertical merger the other units of which perform still further manufacturing operations, the original raw material cost becomes smaller--in some cases an almost negligible percentage of the cost. Price fluctuations are then of less moment. The large part of the cost becomes labour and overhead--elements of cost which are to a large extent under the control of the manufacturer, while material cost is not.

3. Ownership of plants making semi-finished products enables those products to be made more economically. If a plant turns out a variety of products to meet the specifications and needs of many different customers, its costs will reflect the lost time of men and equipment caused by a changing at frequent intervals from one variety or style of product to another. If such a plan is part of a vertical merger, it is no longer governed by the vagaries of demand but can concentrate production which the next factory in line uses.

For a long time Ford appears to have worked toward complete integration although he never quite achieved it. Several years ago, it appears, he decided that it was best not to make everything that he used--that in some respects he could do better by buying some parts of his car from outside manufacturers.

The so called circular merger which sells allied products to the same customers is generally thought of as a new development, yet it, is really but a short cut, on a large scale, to an end striven for and often reached by many individual manufacturers. There are thousands of examples. The General Foods Corp. itself the much cited instance of the new circular merger, long before it took part in a merger manufactured as the Postum Co. many allied products such as, Grape Nuts, Postum Coffee substitutes, and Post Toasties.

The Fleischmann - Royal Baking Powder merger, according to a recent statement to the president of the new Standard Breads Inc.,[1] was primarily for the purpose of more fully utilizing the extensive and intensive distributive system built up by Fleischmann. Its delivery system covers 13,000 towns by direct delivery and 35,000 towns by one day package delivery and serves 30,000 bakers and from 275,000 to 300,000 grocers. The advantage of using such a highly developed and comprehensive system for distributing other grocery products in addition to those made by the Fleischmann Co. is apparent.

There are two paramount economies effected by merging; production and distribution economies. It is true that promoters seldom stressed the real reason underlying those early consolidations, namely, monopoly which would enable them to raise prices. Rather they catered to public opinion by referring in broad generalities to the economies of large scale production. In reality though a merger succeeds in notably reducing all three elements of production cost--direct labour cost, material cost, and overhead expense. Most mergers are able to reduce the latter two. The first is a more difficult issue to handle.

In order to secure production economies it is not necessary that a merger be of gigantic stature. Some highly efficient ones are by modern standards not at all in the category of "big business". They constitute the vast majority of moderately large mergers that nearly any small or medium sized business is apt sooner or later to have an opportunity to join.[2]

1. Basset - Industrial Mergers. - P. 22.
2. Bakery Combines, Senate Document No. 212, 69th Congress 1927.

The principal advantages in production that mergers of any size have over small or even fairly sizable independent manufacturers are:-

1. The substitution of skilled management for unskilled.
2. Financial strength which makes possible heavy investment in expensive labour saving machinery and research into factory methods.
3. Concentration of production of one or a few similar items in individual plants.
4. Comparison of resulting operations of several plants producing similar products.
5. Selecting the best methods used in any unit as the standard for all.
6. The merging of the best brains brought to the merger by the units.
7. Reduced material costs from greater purchasing power.
8. In the vertical merger, greater stability of production due to ability to plan production in the light of a known and assured demand.
9. The ability to reduce the number of varieties of products produced.

A merger of several plants making similar products can often secure a degree of specialization, with resulting production economics, that would be impossible for any one of the plants as an individual. In fact, it is safe to say that this is one of the most prolific sources of economies for horizontal mergers. Thus, a group of furniture factories,[1] each of which made a varied line of products, consolidated both to secure greater financial strength and to effect various economies.

At the start it was determine to have each plant specialize on one type of furniture. Mass production, which formerly was impossible for any of the individual plants, is now the rule in all. One mill makes nothing but chairs, another nothing but frames for upholstered furniture. What is more, the latter makes the frames from the waste material of other mills' products. Specialization is possible not only in products but in operations.

The workers in one of the plants were craftsmen who did beautiful cabinet work of marvelous workmanship throughout. Putting a line finish on their product was a work of love. But they simply could not be pushed to do the rough preliminary construction with speed and by mass production methods. They insiste on doing even that part of the work much better than there was any need.

The other plant had been on a mass production basis. The employees were not skilled cabinet makers. All they had been taught, and all they were interested in, was to push a lot of work through in the shortest possible time. Their finishing work was careless and atrociously poor. They sacrificed everything to getting production. But so far as the preliminary rough work was concerned, it was good enough for the purpose.

1. Basset - Industrial Mergers - P. 48.

When these facts came to light, the management concentrated all of the construction of the rough furniture in the mass production shop. The furniture was then shipped to the other plant where nothing but finishing was done. A better product was thus produced by the merger at lower cost.

Chapter IV.

Financial Structure

The method by which a merger brings about its centralized control of previous independent concerns has a direct and often dominating influence in determining what the capital structure may be. For the sake of clearness in considering the possible and desirable financial structure of any proposed merger it seems well to emphasize the various means by which centralized control of subsidiaries may be attained.

1. Simplest of all perhaps is the outright purchase of the assets of one or more operating companies by another operating company.

2. It is sometimes advisable to retain the corporate identity of a company even though all of the capital stock is owned by another. Commonly this is due to local laws which may require that a company doing business in a state be incorporated in that state or which tax heavily a "foreign" corporation.

3. Sufficient control of policies and operations can sometimes be secured merely by acquisition of a controlling interest in the common stock of a company.

4. If the stock of a company is widely scattered, actual voting control may sometimes be secured by owning less than 50% of the stock. This, however, has its perils for, by voting together, a number of minority stockholders may swing control, or an agressive competitor may buy up enough of the scattered shares to get control.

Some mergers combine two or three or all of these methods of controlling subsidiaries. It is not universal for a holding company to be at the same time an operating company. A notable example is The General Motors Corp. A published statement[1] by the corporation says:-

"General Motors Corporation is primarily an operating concern owning the plants, properties and other assets of its manufacturing operations, which are designated as - divisions. It is also a holding company owning part or all of the capital stock of other companies connected with its activities."

Those whose assets are owned by General Motors Corp. are;-

1. Buick Motors Division
2. Cadillac Motor Car Division
3. Chevrolet Motor
   (this division has several parts manufacturing subsidiaries, all of whose stock is described as owned by General Motors Corp.)
4. Oakland Motor Division
5. Fisher Body Division
   (operates body building plants in the states of Mich. and N.Y. and owns timber lands in Mich.)
6. Armstrong Spring Division
7. Brown - Lipe - Chapin Division
   (Manufactures Differential Gears)
8. Hyatt Bearings Division
   (Manufactures Bearings)
9. Jaxon Steel Products Division
   (Manufactures Wheels, Rims, Tire carrier, Rim parts and Steel stampings)
10. Muncie Products Division
    (Manufactures Transmissions, Steering gears and Chassis parts)
11. Saginaw Crank Shaft Division
12. Saginaw Malleable Iron Division
13. Saginaw Steering Gear Division

Those companies all of whose stock is owned by General Motors Corp. are;-

1. Basset - "Industrial Mergers" - P. 115.

1. General Motors of Canada Ltd.
(Manufactures automobiles and trucks in Canada)
2. Fisher Body Corp.
(Auto body building plants in Cleveland and Cincinati Ohio)
3. Fisher Body St. Louis Co.
(Auto body building plants in St. Louis, Mo., Oakland, Calif., and Jamesville, Wis.)
4. Fleetwood Body Corp.
(Auto body building plant for custom bodies)
5. Ternstedt Mfg. Co.
(Body hardware)
6. The National Plate Glass Co.
7. Fisher Lumber Corp.
8. Delco Remy Corp.
(Manufactures starting, lighting and ignition systems for cars, horns, hydraulics shock absorbers, coincidental locks, small electric meters and lamps)
9. Delco - Light Co.
(Electric light plants and residence water systems)
10. Frigidaire Corp.
(Electric Refrigerators, etc.)
11. Harrison Radiator Corp.
(Automobile Radiators)
12. Inland Mfg. Corp.
(Steering Wheels and rubber and moulded parts)
13. United Motors Service Inc.
(Provides authorized national service for such General Motors products as starting, lighting and ignition systems; hydraulic shock absorbers; horns; rim parts and wheels, radiators; ball bearings; roller bearings; speed-meters; air cleaners, oil filters, gasoline strainers, fuel pumps and gauges)
14. General Motors Export Co.
(Distribution of cars and trucks in overseas territories not covered by General Motors overseas operations)
15. General Motors Ltd.
(Distribution of cars and trucks in Great Britain, and Ireland)
16. General Motors International, A/S
(Distribution of cars in Denmark, Norway, Poland, Esthonia, Iceland, Latvia, Danzig and Lithuania)
17. General Motors Nordiska, A/B
(Distribution of cars in Sweden and Finland)
18. General Motors Continental, S.A.
(Distribution of cars and trucks in Belgium, Holland, and Switzerland)
19. General Motors, G.m.m.W.
(Distribution of cars and trucks in Germany, Austria, Czechoslovakia, Hungary and European Russia)

20. General Motors, France S.A.
    (Distribution of cars in France, Algéria, French Morocco, and Tunisan)
21. General Motors, Peninsula, S.A.
    (Distribution of cars in Spain, Portugal, Spanish Morocco, Canary Islands and Gibraltar)
22. General Motors near East S.A.
    (Distribution of cars in the near east)
23. General Motors, Argentina S.A.
24. General Motors, Brazil S.A.
25. General Motors, Uruguaya S.A.
26. General Motors, South African Ltd.
27. General Motors, Australia Ltd.
28. General Motors, New Zealand Ltd.
29. General Motors, Japan Ltd.
30. N.V. General Motors Java
31. General Motors Acceptance Corp.
32. Argonaut Reality Corp.
33. General Motors Building Corp.
34. Modern Housing Corp.

In addition General Motors Corp. owns all of the capital stock of the following selling corp.;-

1. Buick Motor Co.
2. Brown - Lipe - Chapin Co.
3. Cadillac Motor Car Co.
4. Chevrolet Sales Co's.
5. Hyatt Roller Bearing Co.
6. Jaxon Steel Products Co.
7. Claxon Co.
8. Oakland Motor Car Co.
9. Oldsmobile Motor Works

General Motors Corp. owns all of the common stock of the following companies;-

1. New Departure Mfg. Co.
   (Ball bearings, coaster brakes)
2. Vauxhall Motors, Ltd.
   (Manufactures and sells Vauxhall motor cars in Great Britain and Ireland)
3. Delco-Remy and Hyatt Ltd.
   (Sales and service on Delco - Remy and Hyatt products in Great Britain and Ireland)

General Motors Corp. owns a majority of the stock in the following;-

1. Yellow Truck and Coach Mfg., Co.
2. A. C. Spark Plug Co.

It also owns a half interest in the Ethyl Gasoline Corp. Several of the subsidiary companies of General Motors in turn own all of the capital stock of their subsidiaries.

The line up of General Motors Corp. is given in some detail not because it is particularly complicated, but to indicate how even some of the largest and most powerful mergers sometimes find it expe ient to own the assets of certain subsidiaries, all of the capital stock of some, all of the common stock of others and not even control of still others. We can see that the General Motors Corp. **is at once an operating and a holding company.**

....

Simplicity of capital structure is greatly to be desired for many reasons. Perhaps the most potent one is that it tends to establish a better market for the mergers securities. Whether an investor owns common or preferred stock or bonds, he generally favours those that have as few securities ahead of them as possible.

Thus if he leans towards bonds he prefers those which have no underlying obligations of the subsidiary operating companies ahead of them. If he likes to have his money in preferred stocks he would rather that there were no bonds of any kind with prior claims on earnings and assets. And best of all in the minds of a considerable number of investors in recent years is the common stock of companies having no bonds or preferred. Thus it is that such a leader as the U. S. Steel Corp. decided to retire its entire bond indebtedness. In recent years, many mergers, as a result of the predominant desire of investors for common stocks, have retired bonds before they matured and have called large amounts of preferred stocks.

Many and complex conditions dictate what particular plan will be best for any particular merger. These are based largely on experience. The outstanding points which govern the financial plan are;-

1. The fashions in securities at the time the merger is formed.

Investment fashions change just as radically, if not as a rule so often, as fashion in women's clothes. During the past few years the investing public has favoured common stocks, and at others for bonds. Business men are keen to percieve the public taste in securities at any particular time and when the necessity arises - that particular security which suits the public taste is issued.

2. The type of clientele of the investment banker who handles the financing, is an important factor.

The banker who handles the merger will naturally favour the issuance of the type of security which his customers prefer.

3. The stipulations of the old owners of the merging companies sometimes affect the financial plan.

Sometimes, the sellers are willing to take common stocks, especially if they happen to be young men and are going to be active in the management of the merger. Andrew Carnegie demanded payment in full for his Carnegie Steel Co. in bonds of the newly formed U. S. Steel Co.

4. Even where bonds seem at first to be indicated as part of the financial set up, other conditions may make them impossible or undesirable.

It is, of course, evident that for bonds to be worth the paper they are printed on, there must be sufficient in the way of readily saleable assets behind them. Many highly successful businesses do not have such assets. They may have a negligible amount in assets and yet have a great earning power. The most readily saleable plant is the small and comparitively inexpensive one in an industry where there are many potential buyers. Such might be a flour mill, a bakery, or a creamery.

5. Bonds should be issued only when the earnings are sure to be large and regular. Many of the early "trusts" went on the rocks because they had obligated themselves to pay far too much in bond interest.[1] Bond interest must be paid promptly and regularly when due as the company runs the serious risk of being thrown into bankruptcy or at best - receivership.

6. If earnings promise to be somewhat irregular but large enough on the average over a period of years to cover preferred stock dividends - it is much sounder to use preferred stock rather than bonds.

1. Very prevalent in the Railway Industry.

7. If it appears that net earnings are apt to be both irregular and uncertain in amount, bonds and preferred stocks have no proper place in the financial structure. Common stock is the only possible security if the set up is to be sound.

The foregoing considerations governing the types of securities to be included in the financial plan boil down essentially to two principal ones;-

1. The current fashion in securities i.e. what can be most easily sold to investors.

2. The peculiarities of the business as to assets and earnings.

Chapter V.

The Problem of Labour

Labour has come to feel that the provisions of the courts to interpret union activities as monopolistic restraints of trade constitutes a major problem that must be solved. A feature of the American Federation of Labour convention held at Los Angeles in October 1927, was the demand that Congress either amend or repeal the federal anti-trust laws.[1] Labour's attitude towards such legislation is due not only to fear of action against the unions on the ground that they violate the anti-trust laws, but also, to economic considerations which have influenced the unions position concerning the desirability of the trust type of industrial organization.

If the trust's policy, trade union leaders understood clearly, was one of refusing to deal with the unions, organized labour was confronted with a problem of extreme difficulty. This, in large part, was a consequence of the trusts great financial resources which provided it with somewhat more of an even chance of staving off union attempts to establish collective bargaining.[2] In addition to this advantage possessed by the trust which is based on its greater financial power, there were other reinforcing advantages, such as a technology of production which permitted a preponderance of unskilled and semi skilled workers, the attainment of the union ideal of, "organising the unskilled" would become difficult.

1. New Republic - Nov. 2, 1927.
2. Journal of Political Economy - Dec., 1928.

It is well known that the unions have failed to make much headway in overcoming the trusts defenses (open shop).[1] In view of this, to the unions, perhaps it would have been natural for the Federation to have joined early in the hue and cry that arose in connection with attempts at "trust busting". But this was not the course taken by organized labour. And, as previously indicated, there were considerations--aside from the very real fear that the unions themselves might be prosecuted as combinations in restraint of trade--which induced labour leaders to look askance at attempts to restore a supposedly beneficient state of competition in those industries where at one time it had obtained; for the unions too often had found illusory the gains that were alleged to flow from competition.

The experience of some union leaders has been such as to make them regard with favour that states of affairs in which the large concern is dominant. Having taken this position, it is then not difficult to adopt an attitude of advocating and instituting positive union measures designed to bring about the ultimate elimination of all but a few large competitive units. And finally, since the gap between this situation and that of the trust is not difficult to bridge logically, a receptive attitude may be taken toward the trust itself.

Such a receptive attitude, it will be observed, has grown out of the economic problems of the union; in order to gain the familiar objective of higher wages, shorter hours, and improved conditions of work, collective bargaining is desired. The trust

1. Journal of Political Economy - Dec., 1928.

at least has the ability to pay high wages and to grant improved conditions. To induce or to compel the trust to enter into bargaining relations with organized labour is no simple matter, because of the obstacles the trust can devise.[1] But these obstacles are of different character from those which develop out of a disorganized market in which the competitors are under such severe pressure to reduce costs that they are constantly tempted, and, it may be, forced to economize at the expense of labour.

Rationalization

The subject of rationalization in industry was a very potent topic of discussion at the World Economic Conference in Geneva, in 1927. Two general ideas emerged from the discussions. One was the advantage of extensive economic territories, and the other was the utility of international industrial ententes. The common bond between these two ideas was the lowering of the cost of production by the centralization of production and the reunion in a single economic territory of countries which are now separated by custom barriers, behind which national cartels had developed.

The example of America was not decisive, as the position of the United States was not comparable with that of Europe. Europe did not constitute a compact state but consisted of a number of little countries whose economic evolution was not even uniform. Europeans, with some reason, showed a certain resistance to the process of unification, standardization and simplification. They did not appear to welcome the abandoning of individual styles of production or the acceptance of the American system of uniformity.

1. Jean E. Spielman estimated that three of the major agencies - Pinkerton, Burns and Thiel - have listed as high as 135,000 men on their combined payrolls, operating 100 offices, and 10,000 local branches, with 75 percent of their operatives under cover in various labour organizations - "The Labor Spy" - New Republic 1921.

There could be no idea of surrounding the whole of Europe with custom barriers in order to protect its industry against external competition, as the Americans had done. Finally, America had at its disposal enormous capital, whereas Europe was in need of capital and was overwhelmed with debts, a circumstance which compelled her to produce for export since, when a country had no gold available, it must settle its debts in goods.

Rationalization could only be slowly achieved at the cost of certain sacrifices and by basing itself solidly on realities.

M. Mauro[1] (International Institute for Scientific Management) said that scientific organization excluded any idea of the restoration of pre-war conditions, as it was necessary to take account of technical progress, which had completely changed the aspect of Industrial problems.

Every industrialist thought that his own factory was working upon rational lines, otherwise he would change his methods. Certain employers, however, thought that the maximum of rationalization corresponded with a maximum profit for themselves and they neglected the general interest and the interests of the workers. Scientific organization, however, as a positive force, involved collaboration between the employer and the workers.

If an attempt should be made to coordinate the various factories in a particular branch of industry, it was important also to coordinate all the productive activities of the same country. Scientific organization applied equally to big undertakings as to the small and medium sized undertakings.

1. World Economic Conference - Vol. 11 - P. 141.

The A. F. of L. after its disputes with Taylor, had accepted the new method.

The means of action which M. Mauro thought might be recommended could be summarized in the formula; International documentation and propaganda; national application. It was essential to abandon the fetish of secrecy in manufacturing processes, which had only been justifiable at a period when the processes were purely empirical; scientific progress entailed that the industrialist had an interest henceforth in publishing his secrets in order to learn the secrets of others.

In conclusion, the problem was not so much to transform the factories as to transform the mentality of those concerned, and in that way to work for an improvement in the standard of life of all the classes which were interested in production.

Two good points were also brought to the fore by Baron Shiba[1] of Japan. (1) The national utilization of resources, such as the raw materials which were essential to industry; (2) the internationalization of standards in the mechanical and technical fields generally.

The first question was of the greatest importance. The new generation must endeavour for utilitarian and even for moral reasons, to put an end to unnecessary waste of raw materials. The inequality in the distribution of natural wealth was the cause of the present disequilibrium and has always hitherto been an obstacle.

1. World Economic Conference - Vol. 11 - P. 142.

It being necessary to avoid any step which might lead to monopolies or impair the supply of raw materials at the source, such as coal, mineral oil, and petrol;[1] the free distribution and fair use of which must be assured. Moreover, the quantities of these natural resources being limited, it was advisable to undertake researches with the object of improving methods of exploitation and use of those and other products, so as to reduce waste to the minimum.

Passing to the second point, he would urge that the standardization of raw materials and manufactured articles would have the effect of diminishing the cost of manufacture and sale. The Third International Conference on Standardization which had been held at New York in April 1926, had unanimously adopted the proposal to establish an International Standardization Association, with the object of preparing an international agreement on the uniformity of standards,[2] chiefly by means of an exchange of information. This Conference had appointed a committee composed of the representatives of seven countries, and it had sent circulars to twenty states in which there were national standardization organizations, asking for their collaboration. Baron Shiba recommended the establishment of an international organization competent to undertake the unification of standards throughout the world.

We must remember, that, for the workers, rationalization must not be confined with certain methods which would turn them into mere machines or which would involve overwork. An industry

1. The chief resources that come under this head are : Coal, Water Power, Oil, Natural Gas, Mineral Ores, Timber, the Soil, Animal Life - including Fisheries, Failure to utilize By-Products--"The Tragedy of Waste", Stuart Chase.
2. World Economic Conference - Vol. 11 - P. 143.

better organized and more mobile generally react favourably on wages and in the long run in employment. These efforts with a view towards organization and mobility can only be approved, however, if they are accompanied by a system of compensation for those who lose their employment similar to that which is adopted by cartels in dealing with industrialists who are injured by the concentration of production.

It is also necessary to consider the effects of rationalization not only on production but on the psychology and the whole life of the people. In a large number of factories the workers are the slaves of their machines, and if by rationalization workers are obliged to furnish a greater supply of energy than before, the number of hours of labour must be reduced, not only in the interests of the workers--but in the interests of production itself.

In order to render work agreeable to workers, it is necessary that they should participate in the control of production, of distribution, and of the whole economic system. The increase of purchasing power must be brought about by an increase of wages and a reduction of prices, if rationalisation is to be adopted.

Many draft recommendations were accepted, from the delegates, on the subject of rationalization, and a great deal of effort was given to bettering the position of the workers. It was quite clear that the consequences of rationalization would have to be a reduction in the costs of production, an increase in wages and a reduction in selling prices. The following proposal by M. de Peyerimhoff[1] of France, was adopted:

1. World Economic Conference of 1927 - Vol. 11- P. 158.

"And whereas rationalization must be applied with care in order that the legitimate interests of the workers may not be injured, and suitable measures must be taken which do not impede the process in cases where it, in the early stages, may involve unemployment or more arduous conditions of work;

"And whereas rationalization requires, in all that concerns an organization of labour in the strict sense of the term, the co-operation of employees and the assistance of professional and industrial organizations and of scientific and technical experts...."

After a great deal of debating on this particular subject of "rationalization" The Economic Conference finally submitted a number of recommendations; the following are a few examples:

1. Securing the maximum efficiency of labour with the minimum effort; avoiding waste of raw materials and of energy; simplifying the distribution of commodities and liberating it from disastrous competition, disorganized transportation, ruinous overhead charges, and the multiplication of superfluous middlemen.

2. The increased margin of profit obtainable by rationalization ought not to accrue solely to the producer, but a just proportion of it should be reserved for the workers and for the public, in the form of improved conditions of labour on the one hand and a corresponding reduction of prices on the other hand.

3. That the League of Nations should organize at Geneva a documentation and statistical office, which should collect all useful information both as regards the nature and purpose of international industrial agreements, and as regards their consequence from the standpoint of conditions of labour, their effect on supplies and the movement of prices.

Throughout the entire discussion at the Conference every country looked upon labour as the most potent factor in industry. The conclusion of practically each individual speaker was that with a satisfactory state of labour--economic problems would be very mild. Obviously the results of the Economic Conference were far from material. Internationalism is still in an embryo stage. However, the results of such Conferences are justifiable in that they permit the leading figureheads of different countries to meet and discuss mutual problems; to solve mutual difficulties. It is difficult to determine whether rationalization will or will not get a firm foothold in industry. The worker is gradually manifesting himself in industry and industrial problems; it is gradually being conceded that we are not still faced with the economics of scarcity but on the other hand, the economics of plenty. The economics of production have far outdistanced the economics of distribution. What is needed is a general distribution of purchasing power in the hands of the public and this can only be accomplished by a smoother procedure of production which will give the labourer continual work. It is definitely only within the power of such international conferences that this problem or rationalization can be solved.

Rationalization, however, to be carried on successfully must be effected on an international scale. Herein are we introduced to the problem of international control of industry, i.e. the workings of national and international cartels.

Chapter Vl.

Cartels

The term cartel designates an association based upon a contractual agreement between enterprises in the same field of business which, while retaining their legal independence, associate themselves with a view to exerting a monopolistic influence on the market.[1] The only part of this definition to which anyone may take exception is the assumption that the tendency of the cartel is monopolistic. Any such exception, rests however, on political and not on scientific grounds. Unquestionably the treatment of the cartel in any system of economic theory must be connected directly with the treatment of monopoly. Many prefer to describe the activity of the cartel as a regulation of the market rather than as the exertion of monopolistic influence. But this is merely a vague rendering of the same idea.

As a rule a cartel comes into existence only when the greater number of the undertakings which were formerly competing, became associated in it. Cartels are collective monopolies of entrepreneurs in their capacity as sellers. Monopolistic organisations of consumers, such as organisations for collective buying, should not be designate as cartels, because their effects are quite different from those of associations of sellers. For the same reason employers associations, in which the members combine as against the organizations of employees, should be distinguished from cartels.

1. Encyclopedia of Social Sciences - Vol. 111 - P. 234.

The cartel must not be confused with the corner or the ring. A corner involves the buying up of a commodity in the market with a view to forcing up the price. It is entirely monopolistic in its operation and may be launched by a single individual. A ring is the association of several individuals for the purpose of carrying out a corner. The difference between the ring and the cartel consists in the fact that the former is not an organization made up of the majority of those engaged in a certain industry or trade, but an association of persons, frequently standing outside of the industry or trade, who through speculative buying may create an artificial shortage and thus profit from selling at the resulting higher prices. A ring is a speculative organization, not a union of independent enterprises.

The cartel is not, however, a form of capital organization. It is, to be sure, a manifestation of the modern movement toward concentration but not of consolidation of capital. In this respect it differs from trusts. Cartels are not business undertakings in themselves even when they are closely organized for collective selling through a special agency. In this form of organization, the cartels present the character of a sales cooperative with a monopolistic purpose, but apart from this they are no more than contractual associations, which need not assume any external form whatever. For this reason the legal character of the cartel agreement may vary widely. The cartel differs from the ordinary trade associations by the fact that its members are obligated to a particular action or mission, with a view to the common purpose of regulating the entire industry.

Cartels may be divided into three basic types, according to the method by which they exert their influence upon the market. There are cartels whose direct object is price fixing, cartels which aim at limitation of production or supply, cartels which operate through division of territory. Those of the first type, which may be called price cartels, fix by agreement either definite uniform prices or minimum prices, thus eliminating price cutting. In cartels of the second type, which may be called production cartels, restriction of output is jointly agreed upon in order to place supply in a favourable relation to demand. Production cartels are organized especially in time of business recession, when prices are depressed by over production. They are often a preliminary step toward the organization of price cartels. because price agreements, particularly agreements for increase in prices, are usually possible only when preceded by restriction of output.[1] It is sometimes agreed that the several parties composing the production cartel shall close down their plants for a definite period or operate it at a fraction of its full capacity. In recent times, following the precedent of the American trusts, cartels sometimes dismantle the plants of the members who operate at the greatest disadvantage and compensate the owners through contributions from the remaining members. Sometimes an establish-

1. The "International Steel Entente" formed in 1926 including steel producers in France, Belgium, Germany, Luxemburg, the Saar Basin, Austria, Hungary, Czechoslovakia, and Jugoslavia, controlled 42.5 percent of total annual world's production of raw steel. It made no effort to fix prices arbitrarily, but endeavoured to stabilize them by restricting production - Independent, July 7/28 - International Giants of Industry - P. 3.

ment is bought by a cartel for the purpose of dismantling it. The cartels operating through division of territory assign definite markets exclusively to certain of their members. This would make a complete monopoly possible if every member could be assigned a definite territory. As a rule the cartel assigns territory to groups of its members not to individual members.

Frequently all orders are referred to one selling agency, called a syndicate, which distributes them among the members of the cartel by percentages fixed in advance. Or the profits may be pooled and divided among the membership in definite proportions. The last two types of cartels are sometimes merged. The selling syndicate takes the product of the members, sells it and distributes the profits as agreed on in advance. In general it may be said that these profit sharing cartels are a later development and do not appear in all industries, as, for example, in many of the branches of the textile industry. They do, however, play an important role in the iron industry. In addition to these specific cartels, there is still another form of industrial organization which is closely related to them, but which in itself does not aim at a monopolistic status for its members; associations for dealing with terms of payment, discounts, costs of packing and the like. Such items, if not determined by a common understanding, might easily make price agreements illusory. Associations of this nature have been of great importance, especially in the textile industry, in connection with price and production cartels.

Germany is considered the classic land of the cartel;[1] it is in Germany that the movement has attained its greatest development. This may be explained partly by the fact that the German law is more favourable to cartels than that of other countries especially England and America, and partly by the fact that business in Germany had not grown away from governmental control and organization to any such extent as in the western countries.[2] Moreover, there has long been in Germany a strong tendency towards mutual organization. Capitalistic development was by no means so rapid as in America nor had corporate undertakings come to play so prominent a part in the national economic life. The majority of German enterprises is still in the hands of individual owners and the establishment of modest size the prevailing type.

There are some industries in which conditions are unfavourable to the development of cartels. This is true of agriculture, where cartels play a minor role; the Canadian Wheat Pool and the Cooperative Fruit Growers of California serve as good examples. In this industry the economic units are too numerous, the variety of products too great, differences in quality of products too marked, changes in the quantity and quality of the harvests too pronounced, to admit of a collective control of production or

1. The Encyclopaedia of Social Science - Vol. 111 - P. 2.6.
2. The Rhenneih Coal Selling Syndicate distributes orders received for German coal and fixes the selling price, but the coal owner can make what extra profit he likes by rationalization of production, the use of by-products, etc. On the other hand, he cannot undercut his fellow producers who work, perhaps, in less favourable conditions. Fortnightly, "The Case for Cartels" H.C. Trench, March 1930, P. 355.

prices. Industries in which qualitative differences, unique models and patterns play a large role, and in which the reputation of the individual firm is an important factor, as well as industries which cater to a demand created in large part by fashion, are not well adapted to the operations of the cartel. On the other hand, industries in which differences in quality are unimportant and mass production prevails such as the pig iron industry and certain other branches of the metal industry, the stone and clay, chemical and paper industries, figure prominantly in the history of successful cartels.

The protective tariff played an extremely important part in the development of the cartel, through restricting foreign competition in certain industries. But a protective tariff is not a prerequisite to the development of cartels. International cartels are possible independently of the t riff system.

In general, cartels are not very permanent organizations. Often they overreach themselves in raising prices and thus give an impetus to new competition. In consequence they are undersold and may be freed to dissolve. When overproduction becomes serious and prices fall sharply, some of the entrepreneurs give up the attempt to continue production at a loss, while others form a new association designed to improve their condition through agreements controlling production and prices.

As a result of their experience with cartels, business men have come to recognize more and more clearly that it is more advantageous for them to keep prices as stable as possible than to exploit their monopolistic position to the limit. The cartels call for certain sacrifices in the part of their members--above all, restrictions upon their independence of action. The members are bound by their agreements, which at times involve extensive interference in their private management; they must submit to measures of control which frequently effect most intimate relations of the business and in the case of the firmly organized cartel the members often have to transfer a considerable part of their business activity, particularly the business of selling, to the syndicate.

On the whole, the cartels are conservative and operate to protect their weaker members. As competition increases in intensity; capitalistic concentration and the elimination of the smaller enterprisers would, as the socialistic formula assumes, proceed more rapidly if the cartels did not exert their conservative influence.

Yet it cannot be said that the cartels have checked economic progress or that they have served merely to secure for existing businesses as high profits as possible. The charge that they have hindered technical progress is not borne out by experience. It remains to the interest of every member of a cartel to introduce technical improvements and to reduce costs. The cartels have sometimes given an impetus to technical progress through making available to their entire membership--inventions that would otherwise have been monopolized by a single business. That cartels are not an obstacle to progress toward new and higher types of organization, but merely reduce the hardships of the transition period, is proved by the fact that there has been a marked tendency under the influence of the cartel toward the formation of more integrate types of organizations, such as combines and consolidations.

The cartels are not directed against labour. For dealing with labour the members of the cartels avail themselves of the services of the employers associations. The cartel is often beneficial to labour because it helps the employers to meet demands for higher wages by raising prices and thus shifting the cost to the consumer. Thus it is conceivable that where cartels exist the struggle between employers and employees may diminish in intensity.

The chief menace to economic society from the cartels lies in the possibility of their making full use of the monopoly position they seek to establish. If their customers, either in industries which take their products for further manufacture, or in trade, are themselves organized in cartels it is possible to pass on to the ultimate consumer the pressure accumulated all the way from the producer of raw material. Since it is the ultimate consumers who find the greatest difficulty in organizing, they run the greatest risk of becoming the victims of the process. The most effective means for meeting this situation is the purchasing association, which in the future will no doubt play an important part in connection with this problem. These associations may be organized by producers who take the products of cartels for further manufacture, or by the ultimate consumers under the form of co-operatives. The organization of such associations should be encouraged. Further direct state intervention in the matter of prices, is also necessary under certain conditions.

The activities of the cartel are not, however, an unmixed evil from the customers point of view. It is to the greatest advantage of all customers that through cartel price regulation they are placed on an equal footing. No one can secure raw materials or finished products at a lower price than his competitors. In so far as the cartels succeede in bringing about a greater stability in prices the customer finds it simpler to make calculations and his business position is consequently more secure.

Most cartels have a natural territory in which, up to certain price limits, they are protected against outside competition by their advantage in transportation costs. Outside of this territory, where they have to meet the competition of other producers, they have to sell at lower prices. In the case of nation wide cartels the internal market is often secure against competition within a certain price level determined by the rate of protective duties. Outside of the protected national market the lower prices of the world market prevail.

The monopolistic position of the cartels offer a great incentive to the extention of production. Frequently new enterprises spring up outside of the cartel and underbid it in an effort to capture part of its custom. The cartels employ various means to combat such outside concerns. In part they endeavour to put them out of business by the method of cut-throat competition, fixing extraordinarily low prices wherever the outside competitors appear. Occasionally attempts are made to bu out these competitors a measure which can, of course, be applie only to a limited extent.

The principle weapons employed by cartels to maintain its monopoly position and to suppress competition, are the exclusive contract and exclusive trade relations. These contracts and agreements are directed against the outside competitor but the obligations involved are binding only upon the businesses which supply the cartel with its materials or take its products. Agreements of the same nature may be employed to tie union labour to the cartel. The producer of raw material, the trade union or the purchaser of cartel products is bound by the agreements to do business only with the cartel. These agreements are differentiated as exclusive buying or selling contracts.

Such agreements are especially effective measures for forcing the outsider to join the cartel, just as the refusal of union labourers to work with non union men is an effective means of forcing the latter into the union. Often the mere threat of applying the exclusive contract is sufficient to induce the outsiders to join the cartel. When the exclusive agreement is actually put into effect it may in some circumstances ruin the competitor. In spite of the inclination to pass a severe judgement upon such business practices, it must be borne in mind that the outsider who is being crushed out deserves little sympathy. Like the worker who refuses to join the union he remains outside of the organization with the hope of profiting by the higher prices it establishes, while avoiding his share of the cost of maintaining the organization. If all business men pursued a similar plan the regulation of any industry by means of monopolistic association would be impossible.

International cartels have acquired a greater importance, particularly during the last decade, and may confidently be expected to attain greater importance in the future. Parallel with the establishment of international cartels is the development of large international concerns with their numerous foreign branches. These concerns may in their turn unite in international cartels. In the case of cartels based on division of territory, which are the most common form of international cartel, every country reserves its own territory to itself. Cartels of this type are essentially independent of national tariff systems. The chief benefit from the international cartel consists in the limitation or prevention of dumping. The cartels contribute nothing however, toward a more rational division of labour among different countries. Like the protection tariff they exert a conservative influence in helping to preserve home industries whether or not such industries can be conducted as efficiently and economically in the country in question as in other parts of the world. The chief danger from the international cartel lies perhaps in the security it gives to the national cartel when the latter seeks to exploit its monopoly position.

The Swedish Match Trust represented a unique example of international enterprise which controlled the major part of the worlds supply of a household article of general consumption.

The method of organisation[1] of this international concern

1. Representative International Cartels, Combines, and Trusts - William F. Notz.

was equally unique. A parent company domiciled in Sweden, The Svenska Tandsticksfabriks A.B. formed the heart of a network of business interrelations world wide in extent. Through various holding companies this concern controlled about 150 match factories in 35 different countries.

The whole undertaking also functioned more as a combine or trust, for numerous agreements covering such matters as production, exports and imports, and prices, linked together various units within the larger organization.

A third feature consisted in the acquisition of monopoly concessions for the production or sale of matches in a number of countries in return for financial loans. This latter phase of its business activities was part of a policy of expansion along vertical lines and included financial participation in banks, real estate, and mining and manufacturing enterprises. It was estimated that the combine held an interest in from 70-75 % of the total world production of matches and that it had financial resources approximating 1,000,000,000 Swedish crowns (par value of krona - 26.8 cents).

Prior to the World War the Swedish match industry was dependent upon foreign countries to a very large extent for its su ply of raw mat rials, especially aspen wood and chemicals. During the war, it became necessary to develop domestic sources of supply of raw materials. The Forenada Svenska Tandsticksfabriks for instance, built a plant of its own for manufacturing match machinery, also for lithographing, and, jointly with the Jonkoping concern, established electrochemical works. It also acquired estensive forest rights and even purchased a majority of the stock of a shipping concern.

This vertical expansion continued so that the Swedish match industry was virtually independent of foreign supplies and, besides, had almost a monopoly in the manufacture of machinery for manufacturing matches.

The Forenada Svenska A.B. was organized by Ivar Kreugar in 1913, a combination of eight unaffiliated plants. During the war this company acquired a series of new plants and in 1917 merged with the Jonkoping into the Svenska Tandsticksfabricks A.B. It ultimately became the dominant concern in the match industry of the world.

Kreuger next formed a super holding Company, the A.B. Kreuger and Toll, Stockholm, which had a controlling stock interest in the earlier holding company, the Svenska A.B. as well as in numerous other enterprises of an international character, including Swedish power plants Finnish construction concerns, and large real-estate undertakings.

In 1919 a subsidiary, The American Kreuger and Toll Corp., was formed, which developed into an extensive sales distributive agency not only for Swedish matches, but also for various new foreign specialities, chemicals, drugs, and other commodities.

Swedish match manufacturers consistently followed a policy of keeping the foreign marketing of their products in their own hands. In line with this policy they eliminated the middle man and developed their own sales organisations in foreign countries, including India, where a specially well organized system was established. Considerable capital was required for the setting up of this marketing machinery, but the resulting business expansion is said to have fully warranted this heavy investment.

The Swedish match industry began to penetrate foreign markets and to acquire property rights in foreign plants prior to the World War. Its rapid international expansion, however, fell mainly in the years following the formation of the Svenska A.B. in 1917. Prior to the war the Swedes operated branch plants in England and Finland.

The history of the growth of the match cartel is filled with a certain amount of romance; many odds were encountered and conquered with gestures of shrewdness and a great deal of diplomacy. Most of its powers were tied up in its monopolistic position in many countries due to large loans to the governments of a particular country. Topping the whole institution sat Ivar Kreuger--a master mind; a suave and diplomatic ruler of a giant concern. When the world heard of Kreuger's suicide the press displayed its potent power in moulding the public mind. Kreuger was praised and damned in many tongues. The trust was proven to be as a bag of coveted air--break the bag and the coveted air becomes just air. When Kreuger died, many Kreuger Toll certificates became just paper certificates.

Let it never be said that Ivar Kreuger died "a man undone". He was a genius to have created a trust cartel of such magnitude. Unconsciously he left a great lesson behind him.

Whether future governments, financiers and stock certificate buyers will have learned a lesson from his trust--is yet to be seen. Either Kreuger was conscientiously too ambitious or conscientiously too big a crook. However, it is well for present and future cartels to glean correction from his errors; to keep within their sphere of business. The success of cartels lies herein. It is only when business men expose themselves to too many casualties, not within their immediate line of business, that such ruinous mishaps appear.

Many people are inclined always to see the idea of socialization in the background of all measures for the regulation of cartels and trusts. The branches of industry in which these organizations play a large role, are looked upon as "ripe for socialization". It is urged that they should be taken over by the state. Those who take this position fail as a rule to recognize that these industries, with very few exceptions, are unsuitable for public operation. Marx's assumption that the competitive struggle leads of necessity to a growing concentration of enterprises and to the exploitation of the masses by a few surviving great businesses, which would have to be expropriated by the state, has not proved itself valid. Indeed the tendency of the cartel itself is to prevent the competitive struggle from going to the extreme assumed as inevitable by Marx. And even the concerns and trusts will become increasingly important in the future. The cartels both national and international, will long retain the position of greatest significance in world economy.

Chapter VII.

The Control of Trusts

Since the first corporation law was passed in the United States there have been sharp resentments against combinations of capital. Tammany Hall began its career on the "anti" side. American history is full of parties, groups, and movements built upon keeping business organizations from growing. Nevertheless, business units have kept expanding. The process has been retarded recurrently by economic as well as by political and legal inhibitions, but over a long period the trend toward combination appears to be decisive. Some business units have already reached a size whose further expansion is dangerous; the packing industry is a case in point. But in many lines further consolidation looks promising. At any rate it seems to be one of those fatalistic developments which nothing can stop for long and which when retarded gathers energy for further advance whenever an opening occurs.

Bigger business combinations should not be relished unless their growth is accompanied by a corresponding growth in public controls. This does not mean that the aspiring business man should be harassed, but rather that he should be held accountable by authority to a social code.

The development of the trust type of combination aroused a storm of opposition. This was scarcely remarkable. The power, intangibility and secrecy of the organization, its extra-legal character and its lack of amenability to law all ran counter to American ideas of justice and legality. The opposition rapidly gathered strength under the pressure of public sentiment both the Republican and Democratic Parties--although it was recognized that the campaign would be fought out on the tariff issue--inserted anti trust planks in their respective presidential platforms in the conventions of 1888.[1] This action later bore fruit in the passage of the Sherman Anti Trust Act of 1890. In the meantime the state legislature had not been idle. The latter eighties and early nineties witnessed a flood of State Anti Trust legislation, wheih swept the entire country. Kansas, Nebracka, Maine, Michigan, North Carolina, Iowa, Kentucky and Illinois were conspicuous leaders in the movement. By 1894 the statute books of about 20 states showed legislation of one kind or another looking toward the oppression of trusts, pools, and other combinations.

In effect the Sherman Law declares to be illegal "Every combination in restraint of trade" and it forbids monopolizing or attempting to monopolize any part of interstate or foreign commerce.

The most common criticism of the Law in the beginning was that it failed to define specifically what is meant by restraint of trade and what, exactly, constitutes a monopoly. This was left to the courts to decide. As a result of the changing attitudes of the courts, and in some cases, apparently, conflicting opinion, business men have, since the law was passed, been more or less uncertain as to whether what they were doing, or contemplated doing, was legal

1. The Independent, Feb. 1928, P. 114.

or illegal. The law does not state the economic evils it was designed to forbid, but it is apparent that specific evils were in view and that it was directed against the oppression of consumers by unduly high prices and of competitors by predatory and unscrupulous business methods designed to ruin them.

The feeling of uncertainty as to what could be safely done in the way of consolidating business enterprises were enhanced by the decisions of the lower courts in the American Tobacco Co. and the Standard Oil Co. cases,[1] which gave the Sherman Act a most extreme interpretation. This stage in the attitude of the courts toward mergers ended, and the present era began, with the decision of the Supreme Court on the appealed Tobacco and Oil cases in 1911. Although both cases were decided against the defendant companies, the doubtful issues involved were so clarified by the court that the business world felt a distinct sense of relief. Legitimate business, which had not known where it stood as regards merging, was made to feel far more secure than before in the light of the declaration by the court of the principles involved.

In these cases the Supreme Court announced the "rule of reason" under which, in considerations having to do with the anti-trust laws, business has since operate .

The three principles involved in the "rule of reason" are well worthy of careful noting by business men.

1. That a consolidation of competitors is not of itself necessarily unlawful merely because it would eliminate competition between the companies involved. This was of the greatest importance to business.

1. "The Anti Trust Laws" - Ann. Am. Acad., May 1930 - P. 128.

2. That the particular form or makeup of a merger did not affect its legality from the anti trust law point of view. Thus it is not necessarily illegal for one company to buy the capital stock of another even if that other be a competitor.

3. That the intent of those involve in or responsible for a merger was to be taken into consideration--in fact was to be one of the criteria of the legality or illegality of the merger.

Thus there is apparently no limit to the size of an industrial merger so long as it has no evil or illegal intentions.

It is well to remember that, while until 1913 the only anti trust law was the Sherman Act passed in 1890 - Congress has since then passed nine others some of which tighten the requirements but many of which legalize certain immunities to specified business, such as banking, from the early stringent requirements of the law concerning restraint of trade. Those which directly affect the status of industrial mergers in their interstate and foreign trade are the Clayton Act[1] and the Webb Pomerene Act.[2]

There can be little doubt but that public opinion at present has lost much of its fear of mere size in a business. What it fears, rather, is misuse of the power which great size

1. Passed in 1914 - undertakes to define with greater precision certain types of conspiracy or combination in restraint of trade which are punishable. One of its principal purposes was to eliminate as a crime under the Sherman Law combinations among Labourers for the purpose of achieving legitimate trade-union purposes.
2. Passed in 1918 - permits associations for the purpose of foreign trade which would be illegal in internal trade.

gives to the end of preventing freedom of trading, through making it impossible, by fair means or foul, for competition to arise and succeed in the face of monopoly.

As a matter of fact, there can be no doubt that the ablest business men have learned that unfair, unscrupulous, and predatory attacks upon competition are nowhere nearly as effective in making profits as skillful, economical operation. It may be that business men have suddenly seen the light and become converted to a high standard of business ethics, or, as seems more likely, it may be merely enlightened self-interest that dictates todays policies and methods. Again, it is considered apparent to the thoughtful observer that unethical practices are far more common in the small business than in big business.

Generally speaking, the courts seem to understand that modern business mergers are most often formed for the sake of realizing perfectly proper advantages, usually in the way of economics of production, distribution and administration, and that these advantages are redeemed not only to the benefit of the consolidations but to that of their employees and customers - which is to say the general public.

Canada also has a specific statute with relation to this subject, namely a law known as the "Combines Investigation Act". In defining what shall be deemed to constitute unlawful restraints of trade, the Canadian law in language declares them to be unlawful when they

"have operated or are likely to operate to the detriment

> or against the interest of the public, whether consumers, producers or others"

It will thus be seen that in Canada, just as in England and Australia, the protection of the law is given to the Commonwealth as a whole and not merely to consumers, as in the United States.

The fact that the Canadian law is thus interpreted is shown in the proceedings brought against the Winnipeg Retail Coal Dealers Association.[1] It was shown in that case that the members of the association had entered into an agreement for the purpose of maintaining the retail prices of coal, in order to prevent ruinous competition which existed in their industry. A dealer had sold coal at less than the price fixed by the Assoc., which then took steps to prevent the dealer from obtaining further supplies of coal.

As a result of the investigation made in pursuance of the Canadian law, the agreement made by the Assoc. was declared lawful upon the following grounds.[2]

> "Having regard to these abuses, which have been a real menace to the coal trade and a loss to producers for many years, one can scarcely find fault with the efforts of the association, or others, to suppress such activities. The small gain to those which happened

1. " A Contrast Between the Anti-trust Laws of Foreign Countries and of the United States". - The Annals; Felix H. Levy, January 1930, P. 133.
2. Ibid.

to buy at the reduced price is more than offset by the probable failure to obtain well prepared coal and the absence of those dealers carrying their fair share of the burden of necessary reserve supplies together with the injury they inflict upon bona fide dealers with large investments.......Upon these grounds I have come to the conclusion that, in its activities in endeavouring to limit or prevent this unfair competition, it has not operated to the detriment of, or against the best interests of, the public.

The English courts proceed upon the basis of a consideration of the public welfare taken as a whole, as against the principle which governs in the United States, namely, protection of consumers against higher prices.

When it is considered that consumers are, to a practically complete extent, also producers, distributors or workers, it is impossible to understand upon what logical basis the prevailing principle in this country can be maintained in seeking to subserve the interests of consumers only, even though in so doing a much greater and more important advantage to the Commonwealth is disregarded, namely, the welfare or the preservation of industries, whose existence and welfare are indisputably necessary for the best interests of the Commonwealth as a whole and, therefore, of consumers also.

No statute, governing these principles, exists in England - just a modernized view of ancient common law principles. An excellent example, in this regard, was brought to light in "The

Mogul Steamship Case"[1], wherein a combination of steamship agencies was declared lawful.

Australia, on the other hand, has a specific statute, namely, "The Australian Industries Preservation Act". This law prohibits acts in restraint of trade only when they threaten the existence of Australian industries.

The Australian statute contains[2] the express statements that action claimed to be in restraint of trade shall be declared to be restraints of trade only when they are "to the detriment of the public", or when such acts are committed

"with intent to destroy or injure by means of unfair competition any Australian industry, the preservation of which is advantageous to the Commonwealth, having due regard to the interests of producers, workers and consumers".

In "Concentration of American Industry" Dr. Laidler presents us with a monograph which, away from other things, discloses that as serious a breach has been produced in the anti-trust laws, by the current economic folkways, as has lately occurred, through the operation of somewhat more convivial folkways, in the prohibition amendment. Neither of these majestic laws stands ~~as~~ an unsurmountable deterrent to American citizens who have either serious business or serious drinking in hand.

While the Sherman Act still stands on the statute books Dr. Laidler adduces many examples of monopoly and near monopoly. The table below gives only a sample of the prevailing tendency.

1. Comparison of Anti-trust laws, etc., the Annals, P. 129.
2. Ibid, P. 131.

In prepared foods, The General Foods Corp., Quaker Oats and Kellogg occupy an increasingly commanding position; in dairy products, National Dairy and Borden's can regard their competitors with reasonable equanimity; in paper, International Paper and Power can bid its rivals jump in the lake; in elevators, radiators, furniture vacuum cleaners, a few huge concerns are sitting exceptionally pretty. The chains now claim 20% of all retail sales, eight billions out of forty, while in 1927 their share was only 12.5%. In some lines the chains completely dominate the field. Even in agriculture, the last refuge of rugged individualism, chain farms and factory farms, with due corporate set-ups, are steadily advancing.

ndustry	Number or name of dominant corp's.	Extent of domination
ron ore	U.S. Steel Corp.	50-75% U.S. Reserves
teel	U.S. Steel Corp.	40% Mill Capacity
ickel	Int. Nickel Co.	40% World Reserves
luminum	Aluminum Co. of Am.	Monopoly of Bauxite Reserves
elephone	Am. Tel. and Telegraph	80% of U.S. Service
elegraph	Western Union	75% of U.S. Service
utomobile	Ford and Gen. Motors	75% of U.S. Production
arlour car	Pullman Co.	Vitual Monopoly
gr. Machinery	Int. Harvester	50% of U.S. Production
hoe Machinery	U.S. Shoe Mach. Co.	Virtual Monopoly
ewing Machines	Singer Company	Dominates Field
adio	Radio Corp.	Dominates Field
ugar	Am. Sugar Ref. Co.	Dominates Field
nthracite Coal	8 Companies	80% of U.S. Tonnage
teel	9 Companies	80% of Mill Capacity
ulphur	2 Companies	Most of Worlds Deposits
il	5 Companies	33% of U.S. Production
eat Packing	2 Companies	Over 50% of U.S. Production
read	4 Companies	25% of U.S. Production
igarettes	3 Companies	70% of U.S. Production
lectrical Equip.	2 Companies	Over 50% of U.S. Production
hemical	3 Companies	Dominates Field
atches	2 Companies	Dominates Field
ubber	4 Companies	Dominates Field
oving Pictures	3 Companies	Dominates Field
viation	3 Companies	Dominates Field
lectric Power	4 Groups	Dominates Field
nsurance	10 Companies	66% Insurance in force
nking	1% of banks control	99% Resources

Dr. Laidler has documented this sorry state of affairs with admirable industry and thoroughness. It is a just and fitting tombstone to an era which has passed. Laissez-faire, attacked by the baccili of mergers, interlocking directorates and trade associations, is at the point of death, and it is about time we threw open the windows and called honestly for the mortician. Free competition in the classical sense is moribund. As expressed by Stuart Chase,[1] "let the merry mergers merge and the trade associations cry criminal. What American industry needs above all else, in my opinion, is co-ordination,--an integration of supply to demand, and an end to crucifying wastes and leakages of free competition. The more promptly a given industry acts as an intelligent unit instead of a mob of maniacs, the better I shall be pleased. And when it has rationalized itself, I shall be even more pleased if, like the railroads, it is declared to be "affected with a public interest" and neatly taken under the wing of the government. One hundred percent monopolies should hardly be permitted to go their untrammeled way, but perhaps all that we ultimate consumers would need to do under the circumstances would be to collect excess profits under the income tax law. There, thank God, is a statute made of something stouter than tissue paper."

The growing concentration of industry in Canada is also apparent. A few of the major industries are listed below.[2] (figures relating to years 1928-29)

1. New Republic, Oct. 14/31 - P. 238 - "Mergers Preferred" Stuart Chase.
2. Compiled by Prof. K.W. Taylor, McMaster University.

Iron and Steel ...	573	plants	but	6	corp.	control	. 86	p.c.	of	cap.
Agr. Impl.	62	"	"	2	"	"	. 85	"	"	"
Cotton Textiles ..	36	"	"	4	"	"	. 81	"	"	"
Flour Milling	1325	"	"	4	"	"	. 78	"	"	"
Meat Packing	74	"	"	2	"	"	. 80	"	"	"
Rubber Goods	44	"	"	4	"	"	. 80	"	"	"
Paint & Varnish ..	68	"	"	3	"	"	. 83	"	"	"
Tobacco	72	"	"	2	"	"	. 91	"	"	"

Two per cent of all industrial plants employ half the wage earners.

In England, the United States, France, Austria, and many other countries - cartels and similar associations are forbidden by law. In some countries, however, the establishment of cartels has been occasionally encouraged by the government itself, through the formation of certain compulsory cartels. A compulsory cartel was formed in the German potash industry in 1910, and similar cartels were formed in many branches of industry during the world war. A compulsory cartel was organized by the Italian Government in the Sicilian sulphur industry in 1906, and recently such cartels have appeared in many other Italian industries.[1] In a recent interview with Mussolini, Emil Ludwig discloses the fact--Italy's dictator favours mergers and cartels to such a degree that he is seriously thinking of compelling such combines as he sees fit. Such compulsory cartels have also appeared in Russia, Spain, and Rumania.

It is often preferred that a special administrative organ should be created, or bureau or a registry for cartels to maintain a general supervision of their practices. This is thought necessary because these associations prefer to operate under secret arrangements. No such agency has been created in any European

1. The Detroit Times, Jan. 1/33.

country except Norway. It has been proposed that a particular legal form should be prescribed for all cartels, but this reform has nowhere been realized. In several countries, particularly in the United States, there have been extensive public investigations of the problem of cartels and trusts. Similar investigations were conducted in Germany in 1905-06 and again in 1927, and in Austria in 1912.

The discussion of Industrial Ententes was very prominent at the World Economic Conference. It was generally conceded that the problem of handling cartels nationally and internationally was very difficult but then a solution was necessary since it was generally conceded that the system of cartels was sound and a segregation of detrimental from useful cartels was necessary. The development of cartels was recognized as a forward step to rationalization in industry and with this in view it was adopted that an international executive be adopted to handle this problem.[1] National cartels should be subservient to international laws to effect a more just distribution of markets. The Conference decided that it is almost impossible to have a legal international council to supervise and regularize international ententes, but did suggest that those countries who were directly affected by any single entente should work in collaboration for a general rational good. It was extremely advisable to have some form of effective control.

Combination eliminates duplication and the extravagance of competition. It, however, sets up, under present conditions, a selfish, grasping unconscionable despotism. The problem is to attain the benefits of the problem without its evils. The solution

1. World Economic Conference, Vol. 11.

of the problem lies in evolving the means of preventing the despotism. That, in turn, rests upon the avoidance of the spoils thereof. Under the present system the only aim of the persons in control of a monopoly is the greatest profit possible; the least to be given, the most to be taken. Prevent the undue profit to those in control and the solution is worked out.

Mr. Copal Mintz[1] offers a solution as follows:-

"Compel a very wide distribution of the stock of the monopoly corporation by prohibiting any individual, or group of individuals from, either directly or indirectly, owning more than a prescribed small percentage of the stock, and from holding or exercising the voting power and other rights and benefits of other than that percentage of the stock. The percentage of the stock could be graduated in inverse proportion to the magnitude of the enterprise. Set aside a substantial proportion of the stock for distribution (by sale) among the employees, each to hold a limited number, so as to give them a direct interest in, and a measure of, control of the affairs of the monopoly. Limit the remuneration of officers and persons in control. Prohibit the cutting down or waiver, by contract or otherwise, of the fiduciary status and obligations of the officers and directors to the corporation."

Such an arrangement would result in a more or less public ownership of the monopolies. There is an automatic tendency in that direction to-day; more and more people invest in corporate stocks and securities and there is thereby effected a more widespread distribution of corporate ownership. Of course, Mr. Mintz suggests there would be abuses:-

1. New Republic, "Trust Busting", Copal Mintz, July 18/28, P. 228.

"No matter what restrictions will be imposed, corrupt individuals will find ways and means of aggrandizing themselves beyond the lawful limits. The limitations upon the extent of the stock ownership will be violated through some underhand methods. The designs and schemings of the corrupt will be aided by the apathy of the stock-owning public. Perfection is not to be expected; the search is not for perfection, but for improvement."

Dean Wallace B. Donham of the Harvard Graduate School of Business Administration, says in his admirable book, "Business Adrift", "The time has come, however, for a complete reappraisal of the attitude toward competition which is expressed in the Sherman Act and its amendments with their interpretations. Great monopolies with uncontrolled discretion are certainly dangerous and no democratic society is likely to allow them. Nevertheless the dangers of unbridled fair competition are just as great and unfortunately lack the popular appeal inherent in anti-monopolistic attacks. The necessity for some method of making legal agreements which can stop senseless competition with its threat to the stability of established industrial groups and its shocking economic wastes is becoming more and more apparent. In the course of working out any such reappraisal, legislation will be essential."

The American Bar Association has urged in two successive years that the anti-trust laws should be amended:

1. By vesting in an administrative agency power to approve in advance restraint of trade contracts voluntarily submitted, and

2. By granting immunity to the parties thereto for acts done in pursuance thereof during existence of such approval.

The Committee on Commerce,[1] which advocated these recommendations, pointed out that to confer special authority upon a body of men who in the course of time would become experts in the intricacies of trade relations, would not constitute a radical change in the Sherman Law and would "give relief from the fears and uncertainties which the present methods of enforcement have imposed upon the business world". It was stated that the present practices of the government hinders business men from entering into lawful contracts tending to restrain trade because of the fear that such agreements ultimately might be held to be illegal.

Mr. Wormser[2] gives us an idea of the Committee body.

"Such a commission should of course be chosen without regard to politics, if that be possible. It should contain at least one representative from labour, one representative of capital, one representative of the philosophical and economic thought of the universities, one lawyer and one merchant familiar with the customs of industry. Five members should prove ample, provided the body was permitted to enlarge itself by the employment of experts in dealing with the problems of any particular industry. Too large a commission might prove unwieldy, and there would be danger that its members might be chosen without sufficient discrimination. The salaries of such commissioners should be not less than those paid to federal appelate judges. To urge that such a commission would plunge the government into business is sheer nonsense, for it is business men who are urging that the

1. Wormser - "Frankenstein Incorporated" - P. 221.
2. Ibid - P. 223.

anti-trust acts must be revised, and if their sincerity be genuine, there can be no objection to a revision which will safeguard the interests both of big business and of the consuming public".

"This is an era of mass production. The old days of unrestricted competition among small units have largely disappeared, probably never to return. To seek to coerce their return is foolish and futile. The tendency of the times is toward combination, but the government must be zealous always that Frankenstein's mighty monsters do not overwhelm their creator. To that end, therefore, scrutiny, investigation, regulation and supervision are essential. Nothing in the lessons of the past would justify a belief that the government can dispense with such conditions".

Chapter VIII.

Conclusion

Price competition is deemed so desirable that anti-trust legislation is aimed principally at its preservation, and courts from time to time portray its beneficient tendencies.[1] Nevertheless the Federal and most state legislatures prohibit some form of price cutting involving discrimination, and the courts condemn price competition indicative of intention to monopolize. Expenditure upon sales pressure is nowhere prohibited by legislation and while generally accepted by the courts[2] it is condemned when it is believed to be impelled by wrong motives.

However within recent years the anti-trust laws of several highly industrialized countries have gone under considerable censure.

President Roosevelt has suggested to business leaders a trade whereby the anti-trust laws would be modified in return for a six hour day and five day week agreement.[3]

Business men are talking it over. They want anti-trust modification badly, worse than ever before. The proposal is decidedly attractive. The price, at first inspection, does not seem excessive. It is thoroughly appreciated also that if this is a chance for modification it is the only one. Any casual

1. Clayton Act 1914, Section 2.
2. U.S. v Quaker Oats Co., 232 Fed. 506; U.S. v American Tobacco Co., 221 U.S. 106.
3. Business Week, Feb. 15/33, P. 3.

canvass of senators yields convincing proof, that if a revision of anti-trust laws were to be put through the next session, the result would be stricter laws not more lenient. Unless the proposal bargain is struck.

The evolution of economic doctrines and practices is slowly but surely drawing us nearer to a more rational economic policy. Internationalism, though in its infancy, is gaining speed, stride for stride with economic advance. Unfortunately, the world spasmodically experiences cyclical recessions, and there evolves a flurry of economic nationalism. Tariffs spring up and the individual states try to outdo each other to become self sustaining. Devastating experiences do not seem to benefit these participating nations, ever growing in economic status, and each succeeding cycle becomes worse than the one preceding.

It is really a question whether rationalization will ever reach the stage where the world will be linked as a universal brotherhood, where one nation will trade and cooperate with another in mutual cooperation and advantage. That stage must be built up step by step; the spirit must take root in each nation first.

Competition as an organizing, stimulating and restraining force has ceased to operate over considerable economic areas; and over other large areas operates in a hesitating and intermittant manner. The idea is to get control satisfactory to all the forces of economic society. It does seem shameful that in such a progressive age as this, an age that offers us comforts and luxuries never before heard of, should be so deceased with germs of economic disorder. Society at large demands a solution. Who can give it to them?

Mr. Ordway Tead offers several propositions:[1]

(1) The free and unregulated right of individuals and corporations to set up in business without respect to existing facilities to supply similar goods or services must be regulated in the public interest. It should be recognized, however, that this principle has to be tempered to allow for the experimental development of new industries with new untested products to meet new demands and desires.

(2) Also, corporations doing an interstate business have become so dominant an instrument of economic enterprise that in the interest of uniformity of rights and responsibilities granted and of accountability for results and new security issues, some form of Federal incorporation seems suggested from the democratic standpoint.

(3) The principle of representation of different interests, long an accepted one in the administration of political affairs, is valid and requires further and explicit application in economic affairs. The trouble with group representation as now exemplifies in trade associations, labour unions, bodies of consumers, and so forth, is not the fact of organized effort. It is the fact of under cover efforts to secure special privileges without the checks of a frank balancing of claims with the other groups affected. We need not less group organization in economic life, but far more; but it must be in the open and must consciously bring together "all" the groups concerned in the affairs under consideration, with the consumer interests well to the fore.

1. The Annals, "What is a Democratic Approach to Economic Problems", Mr. Ordway Tead, Jan. '33, P. 101.

(4) In the specific conduct of industries and corporations themselves, we should, in pursuance of democratic ends, utilize the same principle of representation of different interests. But also we should go further and create situations in which the working staff become in fact partners in the enterprise. This is required in the interest of high output no less than of democratic intention. The master-and-servant relationship may occasionally, under careful restrictions, be democratically conducted. But to have the master-and-servant status the only characteristic one in industry is dangerous from the long-range democratic standpoint. There is, of course, no easy formula to apply here. But we are committed to the building up somehow of methods so that the relation of manual and mental workers to the corporations in which they work shall be more cooperative and essentially of a partnership character.

This does not necessarily imply employee election of foremen or managers, or referenda by employees on all kinds of technical or staff problems. But it does imply that the legitimate interests of all the workers involved receive active consideration in the determination of policies relevant to their well being. It also implies that with a little imagination we can adapt the corporate from to "public" uses in such a way as to retain standards of efficient operation and vigorous executive leadership without the enervating result of bureaucratic routineering.

And there is one final proposition which cannot be longer ignored.

(5) Since many economic issues ramify in vital ways into international affairs and relations, we should be prepared at once to take our place affirmatively as a nation in all international conclaves where political or economic issues which are bound to have repercussion on the economic stability of our own land are being considered. The economic unit to-day is fundamentally the world. And no democratic country, however self sufficient it may conceive itself to be, can go far in isolation and disregard of other countries. There may be little hope of agreement or action at the international level for some time to come. But to refuse to participate is to refuse to help ourselves through an ignoring of forces that may affect us adversely but which might be influenced to affect us favourably.

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